

Cost of Cable

- Verizon's cable costs are overstated compared to the FCC's SM
 - Costs varies by zone, type of placement (aerial, buried, or underground), type of cable (copper or fiber), and size of cable (number of pair or fibers)
 - Of the 24 different cable costs used by Verizon, all but 6 exceed the costs used in the SM
- Using the cable costs adopted in the SM results in a 1.7% statewide average reduction in loop costs
 - 2.2% reduction in Metro
 - 4.8% reduction in Urban
 - 0.7% increase in Suburban
 - 5.3% reduction in Rural

Cost of Capital

- Verizon uses a cost of capital that exceeds the 11.25% used by the FCC
 - Issue discussed previously concerning switching and transport costs, as well as loops
- Using the 11.25% cost of capital results in an 8.7% statewide average reduction in loop costs
 - 10.4% reduction in Metro
 - 9.3% reduction in Urban
 - 8.3% reduction in Suburban
 - 8.2% reduction in Rural

Verizon's Loop Costs Are Substantially Overstated and Must Be Reduced

- Taken together, the changes described above would lower Verizon's statewide average loop costs from \$15.66 to \$11.24

	Metro	Urban	Suburban	Rural	Total
Utilization Factor	-7.4%	-18.1%	-18.4%	-0.2%	-16.5%
Pole Inputs	0.0%	-1.2%	-3.9%	-4.7%	-2.9%
Cost of NIDs	0.0%	-2.3%	-2.6%	-2.4%	-2.4%
Cost of Cable	-2.2%	-4.8%	0.7%	-5.3%	-1.7%
Cost of Capital	-10.4%	-9.3%	-8.3%	-8.2%	-8.7%
Total	-18.2%	-30.4%	-29.1%	-17.0%	-28.2%
Filed Rate	\$7.54	\$14.11	\$16.12	\$20.04	\$15.66
Revised Rate	\$6.17	\$9.81	\$11.42	\$16.63	\$11.24

Non-Cost-Based Switching Rates Cause Price Squeeze

Minutes-of-Use in Price Squeeze Calculations

[REDACTED]

[REDACTED]

UNE-P Pricing with Minute Sensitivities (Assuming Minutes of Use at 75%, 125%)

	<u>MA--DTE</u>	<u>MA--Z-Tel</u>	<u>MA--10/13</u>	<u>NY</u>	<u>TX</u>	<u>PA</u>
Households (000)	2,376	2,376	2,376	5,973	5,117	3,398
Zone Density	100%	100%	100%	100%	100%	100%
<u>Revenue:</u>						
Local	\$26.65	\$26.65	\$26.65	\$32.74	\$22.97	\$22.42
Access	\$4.34	\$4.34	\$4.34	\$4.13	\$4.90	\$5.38
Total Revenue (1)	\$30.99	\$30.99	\$30.99	\$36.87	\$27.87	\$27.80
<u>Telco:</u>						
Unbundled switch port	\$4.49	\$4.49	\$2.00	\$2.50	\$2.90	\$1.90
Unbundled loop	\$15.66	\$15.66	\$15.66	\$14.81	\$14.15	\$14.01
UNE switching & transport (2)	\$21.68	\$14.57	\$10.50	\$10.60	\$4.17	\$5.02
Total Telco (3)	\$41.83	\$34.72	\$28.16	\$27.91	\$21.22	\$20.93
Gross Margin (line/month)	(\$10.84)	(\$3.73)	\$2.83	\$8.96	\$6.65	\$6.87
Gross Margin (@75% MOU)	(\$6.34)	(\$0.71)	\$4.99	\$11.17	\$7.53	\$7.93
Gross Margin (@125% MOU)	(\$15.35)	(\$6.75)	\$0.67	\$6.74	\$5.77	\$5.80

1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (2 in TX), and SLC.

2 Reflects MA DTE's Sept. 7, 2000 order which reduced charges on intra-End Office calls, and slight revision in call-flow methodology.

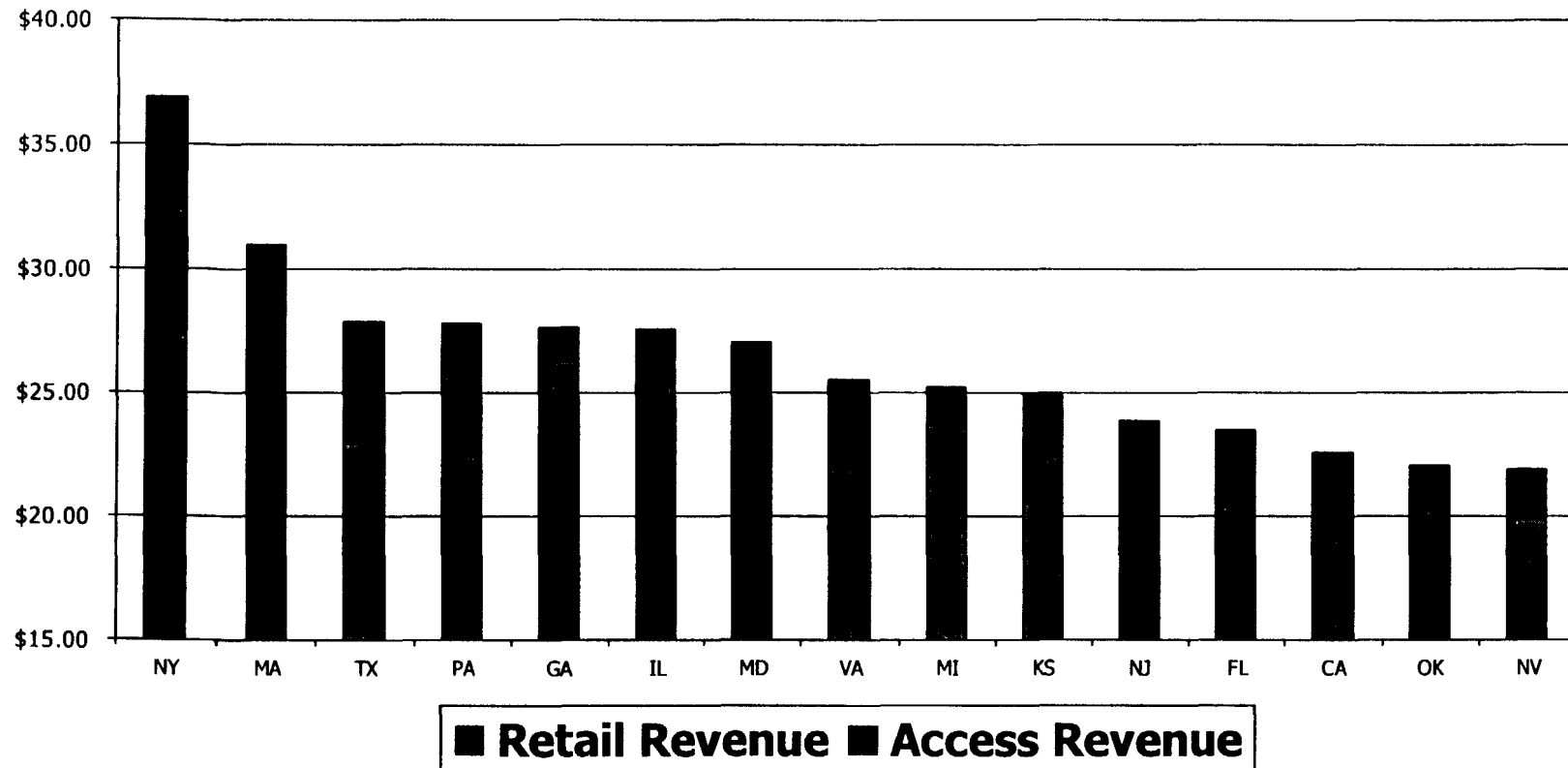
3 Does not include Non-Recurring charges (NRCs).

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Revenue in Price Squeeze Calculations Is Reasonable

[REDACTED]

Local Residential Revenue by State



- Monthly BOC residential retail rates for dominant product (to extent known) in states for which information is available.
- Includes Access Revenue from LD/LATA minutes; feature is Call Waiting for all states except TX (which is Call Waiting and Caller ID)
- FL rate is for unlimited product in the Miami area (highest in state), plus an additional \$1.25 for ECS calling.

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Appendices

WorldCom UNE-P Minutes/Line [REDACTED]

[REDACTED]

Local Minutes From VZ CABS Bill

[REDACTED]

Local Minutes From VZ CABS Bill

[REDACTED]

Local Minutes From VZ CABS Bill

[REDACTED]

Local Minutes From VZ CABS Bill

[REDACTED]

Local Minutes From VZ CABS Bill

[REDACTED]

Local Minutes From VZ CABS Bill

[REDACTED]

Massachusetts (10/13/00) - Verizon (by zone)

	<u>MA--STATE</u>	<u>METRO</u>	<u>URBAN</u>	<u>SUBURBAN</u>	<u>RURAL</u>
Households (000)	2,376	48	665	1,497	166
Zone Density	100%	2%	28%	63%	7%
<u>Revenue:</u>					
Local	\$26.65	\$26.65	\$26.65	\$26.65	\$24.53
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>
Total Revenue (1)	\$30.99	\$30.99	\$30.99	\$30.99	\$28.87
<u>Telco:</u>					
Unbundled switch port	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Unbundled loop	\$15.66	\$7.54	\$14.11	\$16.12	\$20.04
UNE switching & transport (3)	<u>\$10.50</u>	<u>\$10.41</u>	<u>\$10.50</u>	<u>\$10.50</u>	<u>\$10.50</u>
Total Telco (2)	\$28.16	\$19.95	\$26.61	\$28.62	\$32.54
Gross Margin	\$2.83	\$11.04	\$4.38	\$2.37	(\$3.67)

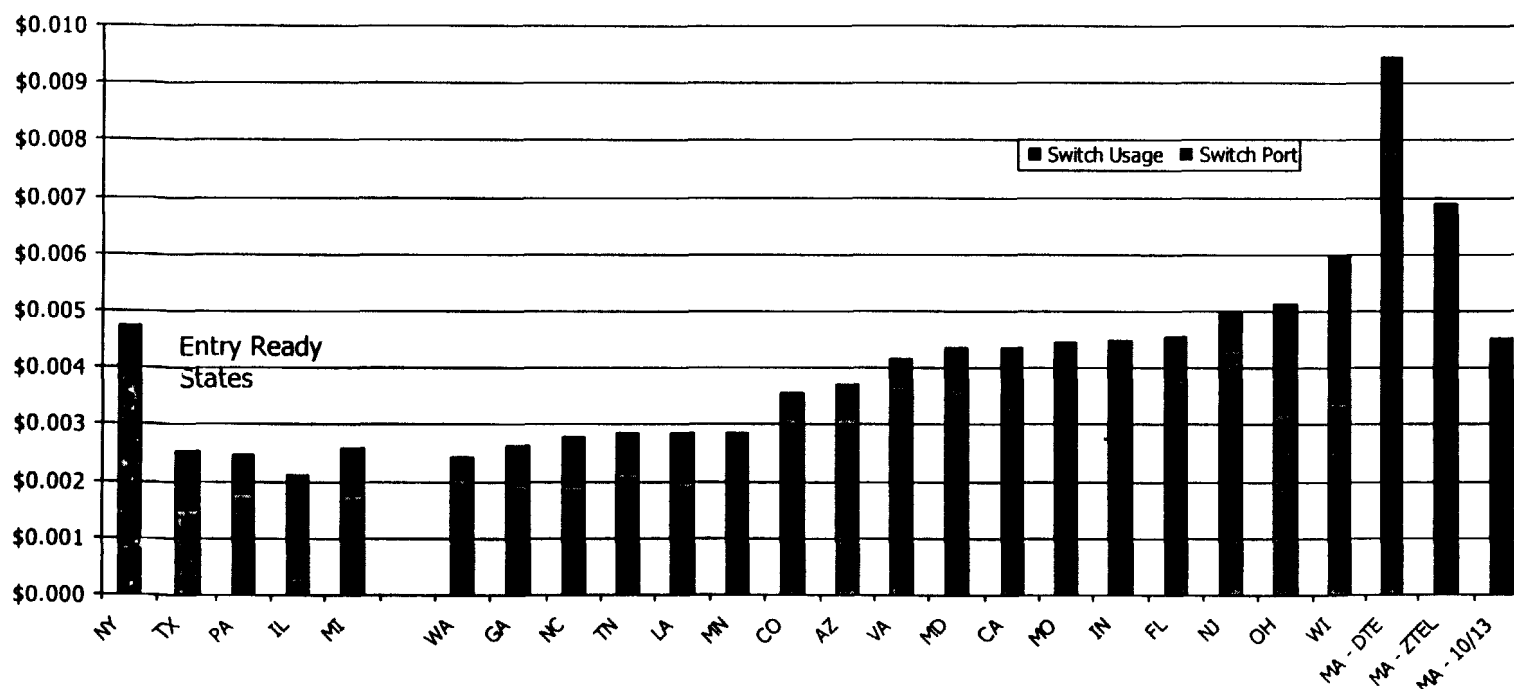
1 Includes line fee, usage, touch tone, 1 feature (call waiting @ \$2.84) and SLC. Reflects revenue in the Boston Area (~1/3 of Verizon-MA). Outside of this area, revenue would be \$2.12 lower or \$24.53. Therefore, revenue in the Suburban zone, and possibly the Urban zone, is overstated (as is the revenue in the state average).

2 Does not include \$0.19 NRC.

3 Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

UNE Costs Are Too High for Competitive Entry in Many States: Switching Rates in Largest States



- Rates per minute in BOC regions of the largest states have been calculated by dividing the estimated monthly switching, transport and port costs per line by total local and long distance minutes (originating & terminating).
- The port charge in IL includes unlimited switching at no extra charge; the effective switching rate is the result of other elements, including transport.
- Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.